

CITY OF SAN JACINTO

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND

July 1, 2007, through June 30, 2011

PROPOSITION 1B ALLOCATIONS

July 1, 2007, through June 30, 2013



JOHN CHIANG
California State Controller

August 2014



JOHN CHIANG
California State Controller

August 29, 2014

The Honorable Alonso Ledezma
Mayor of the City of San Jacinto
595 S. San Jacinto Ave., Building A
San Jacinto, Ca 92583

Dear Mayor Ledezma:

The State Controller's Office audited the City of San Jacinto's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2011, as well as the Proposition 1B allocations for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B allocations recorded in the Measure A Fund in compliance with requirements, except the city understated the cash balance in the Special Gas Tax Street Improvement Fund by \$473,941 as of June 30, 2013, primarily because it advanced funds from the Special Gas Tax Improvement Fund to the Capital Improvement Project Fund, and the funds were not expended.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/by

cc: Tom Prill, Finance Director
City of San Jacinto
Tim Hults, City Manager
City of San Jacinto

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Audit Report

Summary

The State Controller's Office audited the City of San Jacinto's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2011, as well as the Proposition 1B allocations recorded in the Measure A Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B allocations recorded in the Measure A Fund in compliance with requirements, except that the city understated the cash balance in the Special Gas Tax Street Improvement Fund by \$473,941 as of June 30, 2013, primarily because it advanced funds from the Special Gas Tax Improvement Fund to the Capital Improvement Project Fund, and the funds were not expended.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for street and roads. The city recorded its Proposition 1B allocations in the Measure A Fund. A city also is required to expend its allocations within four years following the end of the fiscal

year which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B allocations recorded in the Measure A Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B allocations recorded in the Measure A Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of San Jacinto accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2007, through June 30, 2013, except as noted in the Finding and Recommendation section of this report. The finding required an adjustment of \$473,941 to the city's accounting records.

Our audit also found that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2007, through June 30, 2011.

Furthermore, the audit found that the city accounted for and expended its Proposition 1B allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2013.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on March 24, 2009, disclosed no findings.

**Views of
Responsible
Official**

We issued a draft audit report on June 9, 2014. Tom Prill, Finance Director, responded by letter dated June 18, 2014, disagreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of San Jacinto's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 29, 2014

Schedule 1— Reconciliation of Fund Balance July 1, 2012, through June 30, 2013

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1, 2}
Beginning fund balance per city	\$ 610,596
Revenues	<u>1,034,644</u>
Total funds available	1,645,240
Expenditures	<u>(812,867)</u>
Ending fund balance per city	<u>832,373</u>
Timing adjustment:	
Accrual of June 2013 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>(26,488)</u>
SCO adjustment: ³	
Finding—Unexpended gas tax advances	473,941
Advances receivable	<u>(473,941)</u>
Total SCO adjustment	<u>—</u>
Ending fund balance per audit	<u>\$ 805,885</u>

¹ The city receives apportionments from the State highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

² Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2013. The City of San Jacinto received two apportionments for Proposition 1B. In Fiscal Year (FY) 2007-08, the city received \$552,416 and in FY 2008-09, the city received \$510,585. The city expended all Proposition 1B allocations by FY 2009-10.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Unexpended gas tax advances

Our review found that the city advanced \$473,941 from the Special Gas Tax Street Improvement Fund (fund number 021) to the Capital Improvement Project Fund (fund number 199) during fiscal year 2012-13. Advances from the special gas tax improvement fund to other funds are allowable. However, outstanding amounts at year end must be returned to the Gas Tax Fund.

Article XIX section 2 of the California Constitution, states:

Revenues from taxes imposed by the state on motor vehicle fuels for use in motor vehicles upon public streets and highways, over and above the cost of collection and any refunds authorized by law, shall be used for the following purpose:

- (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic). . . .
- (b) The research, planning, construction, and improvement of exclusive public mass transit guideways (and their related fixed facilities). . . .

Highway user's tax apportionments are restricted to street-related expenditures only.

Recommendation:

The city must reimburse \$473,941 to the Special Gas Tax Street Improvement Fund by reversing the advances receivable. In addition, the city should adopt policies and procedures to prevent any advances from the Special Gas Tax Street Improvement Fund to any other funds unless these funds are expended for street eligible activities.

City's Response

The City disagreed with our finding and recommendation. The City's response is included as an attachment.

SCO's Comments

Based on a review of the City's response, we concur that the advance of funds from the gas tax fund is not a loan. However, because these funds were advanced to the CIP Fund, these funds must be expended for street-eligible purposes and any advanced funds not expended by the end of the fiscal year must be returned to the Gas Tax Fund. Therefore, the outstanding amount advanced (\$473,941) not expended by June 30, 2013, must be transferred back to the Gas Tax Fund along with applicable interest earned.

The finding remains as stated.

**Attachment—
City's Response to
Draft Audit Report**



State Controller's Office
Division of Audits
Attn: Steven Mar, Chief, Local Government Audits Bureau
P.O. Box 942850
Sacramento, CA 94250-5874

Mr. Mar,

This letter is in response to the draft report for our Special Gas Tax Street Improvement Fund audit.

The draft report states in the "Summary" and in the "Finding and Recommendation" sections that the City "loaned money" or "made a loan" from the Special Gas Tax Street Improvement Fund (Gas Tax Fund) to the Capital Improvement Project Fund (CIP Fund). This is identified in the same sections as "an ineligible use of gas tax money" and "not an allowable activity."

The "Background" section of the draft report states: "In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes." The "Objective, Scope, and Methodology" section states: "we determined whether the city: properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;... expended funds exclusively for authorized street-related purposes; and made available unexpended funds for future expenditures." The "Finding and Recommendation" section quotes Article XIX section 2 of the California Constitution and also states: "Highway user's tax apportionments are restricted to street-related expenditures only."

As stated to the auditor that completed the actual fieldwork, the City opposes this notion of a loan, and maintains that these requirements have been followed. All apportionments and appropriate revenues have been deposited correctly, all funds have been expended exclusively for authorized street-related purposes, and all unexpended funds have been made available for future expenditures.

This notion of a loan pertains to a cash transfer from the Gas Tax Fund to the CIP Fund, which contains data on all of the City's CIP, regardless of funding. When a project is approved by our City Council, funding (cash) is transferred to the CIP Fund from all funding sources, whether it is from the General Fund or any "restricted" fund. This should not be considered a loan, since there is a specific accounting of every single dollar that is expended from the CIP fund. When cash is transferred from the funding source to the CIP fund, a receivable is recorded in the

funding source and a payable is recorded in the CIP fund. When cash is actually expended for a project (resulting in an expenditure), that dollar amount for that specific project and that specific funding source also reduces the receivable/payable and is recorded as a "transfer in" in the CIP fund and as a "transfer out" in the funding source. Accordingly, the "transfers out" of the specific funding source is directly related to the project expenditure. At any moment in time, the "transfers out" and the "receivable" in the funding source can be directly traced to CIP expenditures and cash held/reserved/budgeted for future approved CIP expenditures. Again, this in no way is related to a loan, which implies a lack of control over the transferred cash.

To further demonstrate this process, assume a Streets improvement project was approved by City Council for \$500,000, solely funded by the Gas Tax Fund. Cash would be transferred from Gas Tax Fund to CIP Fund, and a receivable would be recorded in the Gas Tax Fund, while a payable would be recorded in the CIP Fund. (Note: no funds have been expended.) For the first month of activity, this project's expenditures total \$50,000... obviously cash has already been expended, and CIP expenditures have already been recorded. At this time, the receivable in the Gas Tax Fund and the payable in the CIP Fund is decreased by \$50,000 (now showing \$450,000, representative of the cash still being held by the CIP Fund), and a Transfer Out of the Gas Tax Fund and a Transfer In to the CIP Fund is recorded for \$50,000. (Note: this results in the CIP Fund being a net effect of \$0, and the amount of the expenditures being properly reflected in the Gas Tax Fund.) Once the project is completed, the project is "trued up" and any excess cash is returned, eliminating the receivable and payable. (Note: to further this idea of cash being "held," the receivable amount is included with the cash amount for that fund in our interest allocation calculation every month, because the receivable amount is considered cash.)

As you can tell, with this process, Gas Tax funds are still exclusively expended on authorized street-related purposes, and unexpended funds are still available for future expenditures. Further, this process cannot be considered a loan in any way, since the funds can only be used for specific, approved capital improvement projects.

Accordingly, we believe that this process meets the "Objective, Scope, and Methodology" as stated in your draft report, and would appreciate your consideration in removing the "Finding and Recommendation" section of the draft report.

Thank you for your time and attention to this matter. If you have any further questions, please feel free to contact me at (951) 487-7340 or tprill@sanjacintoca.us.

Sincerely,

A handwritten signature in blue ink that reads "Thomas Prill". The signature is fluid and cursive, with the first name "Thomas" and last name "Prill" clearly distinguishable.

Thomas Prill
Finance Director

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>